University of Regina

University of Regina Master Trust

Financial Statements

For the Year Ended December 31, 2009

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

Phone: (306) 787-6398
Fax: (306) 787-6383
Web site: www.auditor.sk.ca
Internet E-mail: info@auditor.sk.ca

SASKATCHEWAN

Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets of the University of Regina Master Trust as at December 31, 2009 and the statement of operations and changes in net assets for the year then ended. The University of Regina Master Trust's management is responsible for preparing these financial statements. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets of the Trust as at December 31, 2009 and the changes in the net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
July 20, 2010

Brian Atkinson, FCA
Acting Provincial Auditor

University of Regina Master Trust
Statement of Net Assets
As at December 31

	2009	2008
Assets		
Investments (Notes 1(a), 5 & 8):		
Short-term investments	$ 3,457,039	$ 2,380,890
Bonds and debentures	102,743,049	102,454,453
Equities	180,438,807	137,935,788
Mortgages	6,658,377	10,980,915
Real estate	18,968,986	22,428,279
	312,266,258	276,180,325
Investment income receivable	678,352	737,374
Cash	96,190	26,665
	$ 313,040,800	$ 276,944,364
Liabilities	-	-
Net Assets (Statement 2)	$ 313,040,800	$ 276,944,364
Unitholders' Equity (Note 3)		
Academic & Administrative Employees' Pension Plan	$ 250,698,599	$ 221,728,814
Non-Academic Employees' Pension Plan	62,342,201	55,215,550
	$ 313,040,800	$ 276,944,364
Net Asset Value Per Unit	$ 27.49	$ 23.83

Approved by the Board of Governors

Chair, Board of Governors

Vice President (Administration)

The accompanying notes are an integral part of these financial statements

University of Regina Master Trust
Statement of Operations and Changes in Net Assets
For the Year Ended December 31

	2009	2008
Investment Income		
Interest	$ 5,341,753	$ 6,932,331
Dividends	4,981,806	5,419,722
Real estate	1,145,589	1,092,002
Net realized (loss) gain on sale of investments (Note 6)	(6,935,368)	(580,070)
Net unrealized (depreciation) of investments	37,256,282	(63,133,158)
	41,790,062	(50,269,173)
Expense		
Trustee fees	22,677	1,108
Net income	41,767,385	(50,270,281)
Value of Master Trust units issued (Note 3c and Note 4)	148,045	3,463
Payments on redemption of Master Trust units (Note 3c and Note 4)	(5,818,994)	(10,850,000)
Decrease in Net Assets	36,096,436	(61,116,818)
Net Assets, Beginning of Year	276,944,364	338,061,182
Net Assets, End of Year (to Statement 1)	$ 313,040,800	$ 276,944,364

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

On November 30, 1995, the University of Regina entered into an agreement with a trustee. This agreement creates a single common fund, called the Master Trust.

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

a) Investments

Investments in bonds and equities are recorded at fair values which are determined by reference to closing year end quoted bid prices from recognized security dealers.

Short-term investments are recorded at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Investments in real estate are recorded at fair values using market values from independent appraisals.

Investments in mortgages are recorded at their net present value by discounting stated rates of return to current market rates of return which approximates fair values.

Pooled funds are recorded at fair value based on the net asset value per unit of the underlying investments on the last valuation date.

The change in the fair value of investments during the year is reflected on statement 2 as unrealized (depreciation) of investments.

Investments denominated in foreign currency are translated at the exchange rate in effect at year end. Investment transactions and realized gains and/or losses are translated at the exchange rate in effect at the transaction date. Unrealized gains and losses resulting from exchange differences are included in the determination of the change in fair value of investments.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded as of the trade date.

b) Receivables/Payables

These financial instruments are non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates carrying value.

c) Use of estimates

In preparing the financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities. Significant estimates are used primarily in the determination of the fair value of investments and investment related receivables and liabilities. Actual results could differ from those estimates, which may impact the results reported in future periods.

d) Change in accounting policies

Effective for its fiscal year ended December 31, 2009, the Plan adopted the Canadian Institute of Chartered Accountants' new recommendation for disclosures relating to fair value measurements. Section 3862 *Financial Instruments – Disclosures* has been amended to require enhanced disclosure for fair value measurements recognized in the balance sheet. The Plan is required to classify and disclose fair value measurements using a three-tier hierarchy based on the lowest level input that is significant to that fair value measurement.

The adoption of this amendment did not have a significant impact on the Plan's financial statements.

Effective for its fiscal year ended December 31, 2009, the Plan adopted the Canadian Institute of Chartered Accountants' new recommendation for disclosures relating to liquidity risk. Section 3862 *Financial Instruments – Disclosures* has been amended to require enhanced disclosures for liquidity risk in response to current market conditions. The Plan is required to disclose maturity analysis for derivative and non-derivative financial liabilities based on how the Plan manages its liquidity risk.

The adoption of this amendment did not have a significant impact on the Plan's financial statements.

e) Future accounting policy changes

The Canadian Accounting Standards Board (AcSB) has decided that while the use of International Financial Reporting Standards (IFRS) will be required for Canadian publicly accountable enterprises for fiscal years beginning on or after January 1, 2011, that the primary standard applicable to pension plans will be *CICA Accounting Handbook - Part IV*, Canadian accounting standards for pension plans. The standard will be effective for annual financial statements for fiscal years beginning on or after January 1, 2011 and will require enhanced disclosure. Earlier application will be permitted. The plan is currently assessing the impact of these changes on the financial statements and related notes.

In April 2010, an exposure draft titled, "Pension Plans (Proposed amendment to the scope of section 4600," was issued. The exposure draft proposes expanding the scope of Section 4600 to include entities separate from a pension plan whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have pension obligations.

2. Master Trust Administration

Under the Master Trust Agreement, the trustee agrees to hold, invest, administer and distribute the assets of the Master Trust in accordance with the provisions of the agreement.

The functions of custody and execution of investment transactions for the Master Trust have been segregated. The University of Regina has appointed several investment managers to provide investment instructions to the trustee. Under the agreement with the trustee, the trustee maintains custody of the Master Trust assets, but may only invest the Master Trust assets as authorized by the investment managers.

3. Description of the Master Trust

The following description of the Master Trust is a summary only. The Master Trust is a segregated pooled fund. For more information, reference should be made to the Master Trust Agreement.

a) General

On December 1, 1995, the investment portfolios of the University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans were combined into a Master Trust to improve investing opportunities. Each plan holds units in the Master Trust rather than holding individual assets.

b) Initial Allocation of Units

Upon the establishment of the Master Trust, the trustee divided the Master Trust into original units with a value of $10 each. The University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans received units of the Master Trust based on this original unit value in proportion to the market value at December 1, 1995, of the assets transferred into the Master Trust on this date.

c) Issuance and Redemption of Units

The Master Trust issues additional units to the Pension Plans when assets are transferred from the Plans, or at month end when net income is distributed to the Plans. Units are distributed on the last business day of the trustee's head office in the month or any other day as the trustee in its sole discretion may determine.

Units in the Master Trust are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the underlying investments divided by the total number of units outstanding.

Units of the Master Trust may be redeemed by a pension plan at the net asset value per unit.

4. Unitholders' Equity

The number of units issued and redeemed during the year were as follows:

	2009	2008
Balance, beginning of year	11,620,265.693	12,022,675.498
Issued during the year	5,878.675	123.087
Redeemed during the year	(239,809.401)	(402,532.892)
Balance, end of year	11,386,334.967	11,620,265.693

The number of units held by participating pension plans at the end of the year were as follows:

	2009	2008
Academic & Administrative Employees	9,118,745.254	9,303,486.703
Non-Academic Employees	2,267,589.713	2,316,778.878
Balance, end of year	11,386,334.967	11,620,265.581

5. Financial Risk Management

Based on the investment objectives set by the participating pension plans, the Master Trust invests cash flows from the pension plans. The nature of the Master Trust's operations results in a statement of net assets that consists primarily of financial instruments. The risks that arise are market risk, (consisting of interest rate risk, foreign exchange risk and equity price risk), credit risk and liquidity risk.

Significant financial risks are related to the investments. These financial risks are managed by having an investment policy, which is approved by the Board of Governors. The investment policy provides guidelines to the Master Trust's investment managers for the asset mix of the portfolio regarding the quality and quantity of fixed income investments, real estate and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives (such as options, futures, and forward contracts) are allowed within the Master Trust to protect against losses from changes in exchange rates and market indices; and for non-hedging purposes, as a substitute for direct investment. The investment policy prevents the use of derivatives for speculative trading or to create a portfolio with leverage.

a) Market Risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest Rate Risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Master Trust's cash flows, financial position and income. This risk arises from short-term changes in nominal interest rates that cause differences in the timing and amount of cash flows related to the investments. Interest rate risk is managed by investing in fixed income investments (short-term investments, bonds and debentures, mortgages) of various durations. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase the value of the fixed income investments by $ 6,900,000 at December 31, 2009, representing 6.08% of the $ 112,858,462 fair value of these investments.

Foreign Exchange:

The Master Trust is subject to changes in the US/Canadian dollar exchange rate for US denominated investments. Also, the Master Trust is exposed to EAFE (Europe, Australasia and Far East) currencies and global currencies (including US, Non-North American and Canadian) through its investment in the pooled Non-North American (NNA) equity fund and pooled global equity fund. Exposure to US equities, Non-North American equities, and global equities is limited to a maximum 16%, 18%, and 12% respectively each of the total of the fair value of the total investment portfolio. At December 31, 2009 the Master Trust's exposure to US equities was 14.8% (2008 – 18.6%) and its exposure to Non-North American equities (including global equities) was 24.7% (2008 – 15.1%).

At December 31, 2009, a 10% appreciation in the Canadian dollar versus US dollar exchange rate would result in approximately a $ 4,600,000 decrease in investments. A 10% weakening in the Canadian dollar versus EAFE currencies would result in approximately a $ 7,750,000 increase in investments.

No more than 10% of the fair value of the bond and debentures portfolio shall be invested in bonds of foreign issuers.

Equity Prices:

	Market Value	
	2009	2008
Common Shares and Pooled Funds – Canadian	$56,769,752	$44,912,822
Pooled Funds – Global	28,660,849	-
Pooled Funds – NNA	48,813,686	41,816,915
Pooled Funds – US	46,194,520	51,206,051
	$180,438,807	$137,935,788

The Master Trust is exposed to changes in equity prices in Canadian, US, and EAFE markets. Equities, including equity pooled funds, comprise 57.82% (2008 – 49.94%) of the fair value of the Master Trust's total investments. Individual stock holdings are diversified by geography, industry type and

corporate entity. No one investee or related group of investees represents greater than 10% of the fair value of the Master Trust's total investment portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation. Investments in pooled funds do not exceed 10% of the fair value of that fund.

The following table indicates the approximate change that would be expected to the total investment portfolio based on changes in the Master Trust's benchmark indices as at December 31, 2009:

	10% increase	10% decrease
Canadian Equities	$ 5,700,000	$ (5,700,000)
US Equities	$ 4,600,000	$ (4,600,000)
NNA Equities	$ 4,900,000	$ (4,900,000)
Global Equities	$ 2,900,000	$ (2,900,000)

b) Credit Risk

Credit risk arises from the potential for an investee to fail or for a counterparty (e.g. mortgager) to default on its contractual obligations to the Master Trust. The Master Trust limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe the investments below are based on the Dominion Bond Rating Service and/or the Standard and Poor's Bond Rating Service.

Short-Term Investments

These investments are comprised of a pooled fund that holds investments mainly in corporate bonds and debentures with effective interest rates of 0.25% to 0.769% (2008- 1.4601% to 4.1008%) and maturing within 4 to 270 days (2008 - 2 to 154 days) The investment policies of the participating pension plans state that investments must meet a minimum investment standard of "R-1", as rated by a recognized credit rating service.

Bonds and Debentures

The investment policies of the participating pension plans state that the minimum quality standard for individual bonds and debentures is 'B' as rated by a recognized bond rating agency at the time of purchase, and sets limits to the maximum notational amount of exposure with respect to any one issuer. Bonds rated 'BBB', 'BB' and 'B' may not be purchased if the purchase would raise holdings rated 'BBB' to 'B' inclusive to more than 15% of the fair value of the bond portfolio, with bonds rated below 'BBB' not to exceed 5% of the fair value of the bond portfolio at the time of purchase.

Years to Maturity	2009 Federal	Provincial	Pooled Funds	Total Fair Value	Yield to Maturity at Fair Value	Coupon Rate	2008 Total Fair Value	Yield to Maturity at Fair Value	Coupon Rate
Under 5	$ 664,045	-	62,845,441	63,509,486	0.35%	3.56% - 3.75%	$ 67,623,485	0.7068%-6.7181%	3.75% - 4.75%
5 - 10	9,487,216	116,325	-	9,603,541	3.61% - 4.25%	3.75% - 4.4%	6,512,607	3.7387%-4.2184%	4.2% - 4.5%
Over 10	1,109,050	28,520,972	-	29,630,022	4.07% - 5.28%	4.0% - 8.5%	28,318,361	3.5127%-5.5791%	2.0% - 8.5%
Market Value	$ 11,260,311	28,637,297	62,845,441	102,743,049			$ 102,454,453		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Credit ratings for bonds are as follows:

	2009		2008	
Credit Rating	Fair Value	Make up of Portfolio (%)	Fair Value	Make up of Portfolio (%)
AAA	$ 19,399,701	18.88%	$ 8,736,807	8.53%
AA	46,277,747	45.04%	62,257,783	60.76%
A	28,395,198	27.64%	26,635,980	26.00%
BBB	7,911,654	7.70%	4,811,680	4.70%
BB & Below	758,749	0.74%	12,203	0.01%
Total	$ 102,743,049	100.00%	$102,454,453	100.00%

Within bond investments there are no direct holdings other than the Government of Canada or a Canadian province. No one holding of a province is over 23.20% of the fair value of the bond portfolio. Securities of the Master Trust may not be loaned except within pooled funds where the pooled fund policy permits securities lending.

Fair Value

The Plan has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Short-term investments	$3,457,039			$3,457,039
Bonds and Debentures	102,743,049			102,743,049
Equities	180,438,807			180,438,807
Mortgages	6,658,377			6,658,377
Real estate		$18,968,986		18,968,986
Total	$293,297,272	$18,968,986		$312,266,258

Real Estate

The Master Trust holds $18,968,986 (2008 - $22,428,279) in real estate. This represents 6.07% (2008 – 8.12%) of total investments. The investments in real estate consist of Canadian commercial property.

Mortgages

The investment policies of the participating pension plans state the investments in mortgage can be mortgages secured against Canadian real estate, mortgage-backed securities, or asset-backed securities.

c) Liquidity Risk

Liquidity risk is the risk that the Master Trust is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

6. Net Realized (Loss) Gain on Sale of Assets

	2009	2008
Proceeds from sale of investments	$ 176,918,040	$ 196,331,731
Cost of investments sold:		
Investments at cost, beginning of period	319,664,221	317,439,257
Cost of investments purchased	182,683,058	199,136,765
	502,347,279	516,576,022
Investments at cost, end of period	(318,493,871)	(319,664,221)
	183,853,408	196,911,801
Net realized (loss) gain on sale of investments	$ (6,935,368)	$ (580,070)

7. Related Parties

The Master Trust is related to the University of Regina and the pension plans sponsored by the University.

All administrative expenses of the Master Trust are paid by the two major participating pension plans.

8. Investment Performance

The University has retained Phillips, Hager & North Ltd. as investment manager of the majority of the investments in the Master Trust. The University also contracts with Franklin Templeton Investments, Bentall Investment Management, BlackRock Asset Management Canada Limited, Mawer Investment Management Ltd., and Grantham, Mayo Van Otterloo & Co. LLC to be investment managers of specific types of investments in the Master Trust.

These investment managers make the day-to-day decision of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the joint Academic and Administrative and Non-Academic Benefits Committee. It is these long-term investment performance objectives that are used to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire Master Trust portfolio is to out-perform a benchmark portfolio with weightings as follows:

Asset Class	Representative Index	Weight
Canadian equities	S&P/TSX Composite Index	16 %
U.S. equities	S&P 500 Index (Cdn $)	7
U.S. equities	S&P 500 Index - Hedged	7
Non-North American equities	MSCI EAFE Index (Cdn $)	15
Global equities	MSCI World Index (Cdn $)	10
Real Estate	Investment Property Databank	10
Bonds	DEX Universe Bond Index	33
Short-term investments	91-day T-Bills	2
		100 %

The University engages the services of Hewitt Associates, asset management consultants, to provide advice on the overall management of the Master Trust's investments and on the measurement of the Trust's performance. Hewitt Associates reports to the joint Academic and Administrative and Non-Academic Benefits Committee quarterly on the investment performance against benchmarks over moving four-year periods.

The one year investment objective (the return of the benchmark portfolio) was 13.3% (2008 – -15.0%). For the year ending December 31, 2009, the Master Trust had a gross rate of return of 15.4% (2008 – -15.2%). For the four years ending December 31, 2009, the Master Trust had a gross rate of return of 3.3% (2008 – 1.9%) and benchmark return of 2.7% (2008 – 2.0%).